Rapid Growth in Medical Transfer Payments Is Driving Force for Growth in Transfers

During 1990-94, per capita transfer payments grew over 4 percent annually in both rural and urban America, nearly twice as fast as during the 1980's. A rapid rise in per capita spending for medical payments accounted for a majority of both rural and urban growth. Rural economies rely more heavily than urban economies on transfer income as a major source of personal income. In 1994, per capita transfers made up 21 percent of rural personal income, up from 18 percent in 1989.

Each year, Federal, State and local governments spend billions of public dollars in support of the Nation's social welfare. Large-scale public spending for social programs traces back to the Social Security Act of 1935 that established Social Security, the largest income maintenance program in the Nation, along with several other programs that eventually evolved into Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and unemployment insurance (UI). Drawn from public revenues and trust funds, these expenditures include benefits paid to individuals, organizations, and businesses along with capital outlays, and administrative and service costs of the public programs.

A substantial part of public spending for social welfare goes as income transfers to individuals who are recipients of cash benefits distributed through various government programs. Of the $915 billion in cash benefits transferred to individuals in 1994, over $188 billion went to persons living in rural areas, amounting to $3,560 per capita — up from $3,512 in 1993 (1994 constant dollars). Per capita transfer payments to urban residents grew from $3,464 in 1993 to $3,503 in 1994 (app. table 12).

The overwhelming share of rural transfer dollars went to large numbers of retirees as retirement/disability payments including Social Security and government pensions (52 percent) and to suppliers of medical care as Medicare and Medicaid payments (33 percent) (fig. 1). About 9 percent of transfer dollars (totally $17 billion) was cash income benefits paid to qualifying families and persons through welfare programs (AFDC, SSI, food stamps and other income maintenance programs). Unemployment insurance, veterans' benefits, and employment, education, and training programs accounted for the remaining 6 percent (see appendix, pp. 53-54, for definitions).

Share of Rural Personal Income From Transfers Grows

Not only are rural per capita transfers higher than urban per capita transfers, but they account for a larger and growing share of rural personal income. Transfers made up one-fifth of rural personal income in 1994, compared to 15.1 percent in 1979 and 18.0 percent in 1989. The share of urban per capita personal income from transfer payments also grew, increasing from 12.1 percent in 1979 to 15.3 percent in 1994. Clearly, rural areas rely more heavily on transfer income than urban areas.

Transfers Grow Faster in Rural Than Urban Areas

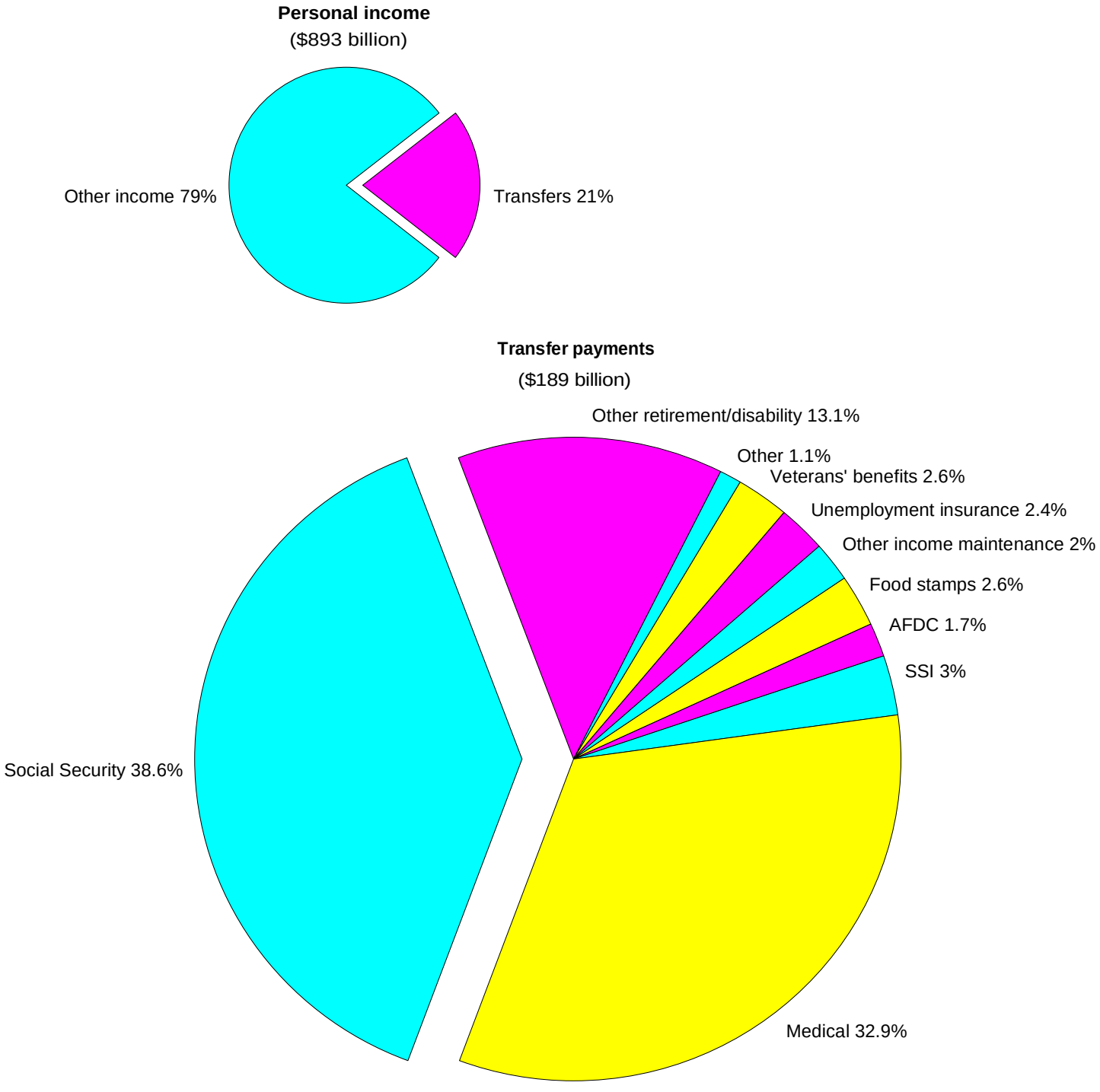
Continuing a trend spanning several decades, per capita government transfer payments to individuals grew faster than inflation in both rural and urban areas during 1980-94. In the early 1980's, rural and urban per capita transfers were growing at about the same pace. After 1981, rural per capita transfers began to grow faster than those in urban areas with the rural-urban gap widening the most during the 1990's (fig. 2).

One of the main forces driving real growth trends in rural transfer payments is growth in medical payments (Medicare, Medicaid, and CHAMPUS payments for military dependents). Accounting for a third of rural per capita transfer dollars, per capita medical transfer payments in 1994 were 271 percent of their 1980 base. Per capita retirement and disability payments (such as Social Security and pensions) grew only slightly faster than inflation. Growth in per capita unemployment insurance fluctuated over the period, growing rapidly during recessionary years and slowing or declining during years of economic recovery. Growth in income maintenance programs (SSI, AFDC, food stamps, and other programs for low-income persons not receiving AFDC) increased slightly to modestly until 1991 when it quickened during the 1990-91 recession, then slowed and leveled off between 1993-94 (fig. 3).

Figure 1

Nonmetro transfer payments as share of personal income and by individual sources, 1994

Over one-fifth of rural personal income came from transfers in 1994



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

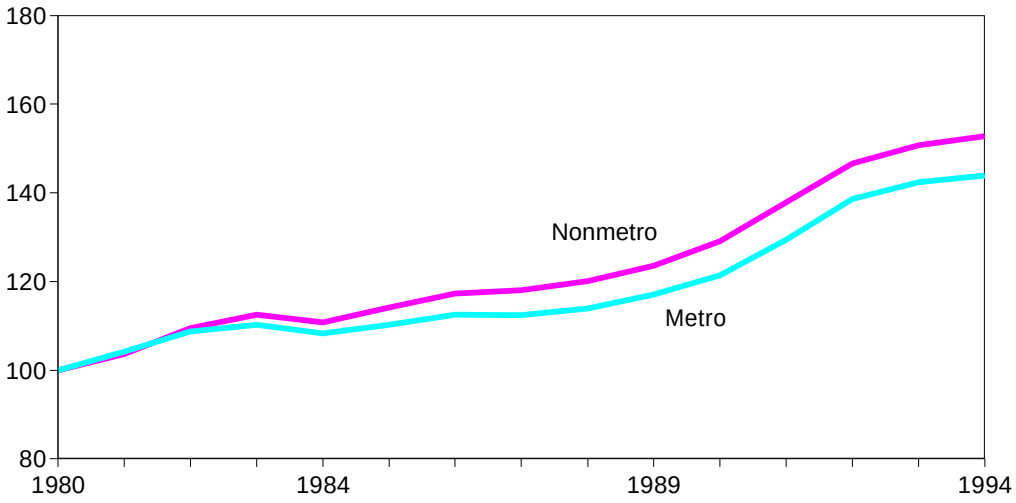
Annual Rate of Transfer Growth Slows in 1994

As reported in the Spring 1995 *Rural Conditions and Trends*, annual rates of change in transfer payments generally follow changes in the economy, growing during recessionary periods and falling during periods of economic recovery. Transfer payments grew at an average annual rate of about 4 percent in both rural and urban areas between 1990-94, about twice as fast as they did during the 1980's. During 1990-92—spanning the year of the last recession when rural earnings declined and the first year of economic recovery when rural earnings grew by 2.81 percent—rural per capita transfers grew more than 6 percent. During the 2 years of the 1992-94 economic recovery when the earnings growth

Figure 2

Trends in real transfer payments per capita by residence

Although transfers grew in both rural and urban areas, rural transfers grew faster after 1981

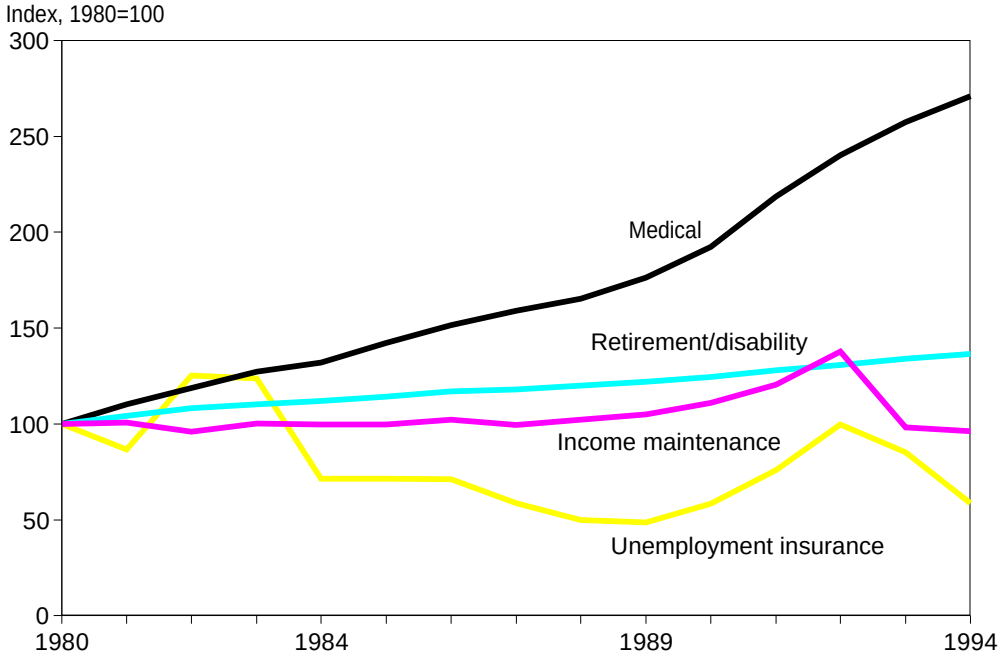


Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Figure 3

Trends in nonmetro real transfer payments per capita by program

Medical transfers in rural areas grew rapidly from 1980 to 1994



Source: Calculated by ERS using data from the Bureau of Economic Analysis

increased markedly, growth in transfers decelerated to 2.8 percent in 1992-93 and 1.4 percent in 1993-94 (fig. 4).

Rural growth rates in nearly all program categories either slowed or declined in 1993-94 to the lowest point of the decade (app. table 12). Medical outlays grew, on average, 9 percent a year during 1990-94, with most of the growth occuring in the early 1990's. Responding to employment growth (see p. 18), growth in food stamps and unemployment insurance benefits declined by 3.4 percent and 31.2 percent, respectively. The annual rate of growth in all income maintenance programs dropped dramatically from 13.8 percent in 1991-92 to -0.46 in 1993-94. For the second time during the 1990's, per capita AFDC benefits declined. If the recent national decrease in AFDC recipients reaches rural areas, per capita AFDC benefits may show a continuing decline when the 1995 data become available.

Rural Reliance on Transfers Varies for Different County Types and Geographically

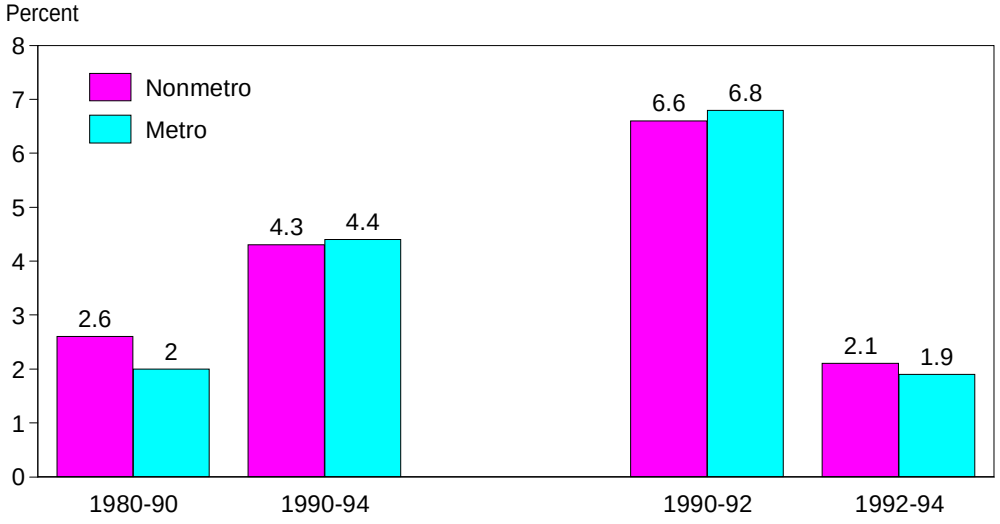
The level of per capita transfers varies among different county types (app. table 13). Counties with somewhat higher per capita transfer payments include those with a high concentration of Black population where transfer payments made up 24 percent of total county per capita personal income and came disproportionately from maintenance programs. In retirement destination counties, per capita transfers were $3,794 and, as one might expect, came disproportionately from programs benefiting people age 65 years or older such as Social Security, government pensions, and Medicare. Likewise, counties with declining populations also depended more heavily on transfer payments with a larger relative share from medical programs. With poverty rates in excess of 20 percent for several decades, persistent-poverty counties relied on transfer payments for more than 26 percent of overall personal income with disproportionate shares of transfers coming from medical and income maintenance benefits via programs aimed at the poor.

The results of classifying nonmetro counties into three groups according to the share of personal income derived from transfer payments further confirm the linkage between the concentration of either elderly retirees or disadvantaged populations and economic reliance on transfer income. High-transfer counties—the top 25 percent of nonmetro counties—relied on transfers for 27 percent or more of county personal income. These counties tended to be concentrated in the Appalachian areas of West Virginia, Kentucky, the Black Belt counties of the Deep South including the Mississippi River Delta, parts of

Figure 4

Average annual change in real transfers per capita by residence

Transfer growth quickened in both rural and urban areas during the early 1990's



Source: Calculated by ERS using data from the Bureau of Economic analysis.

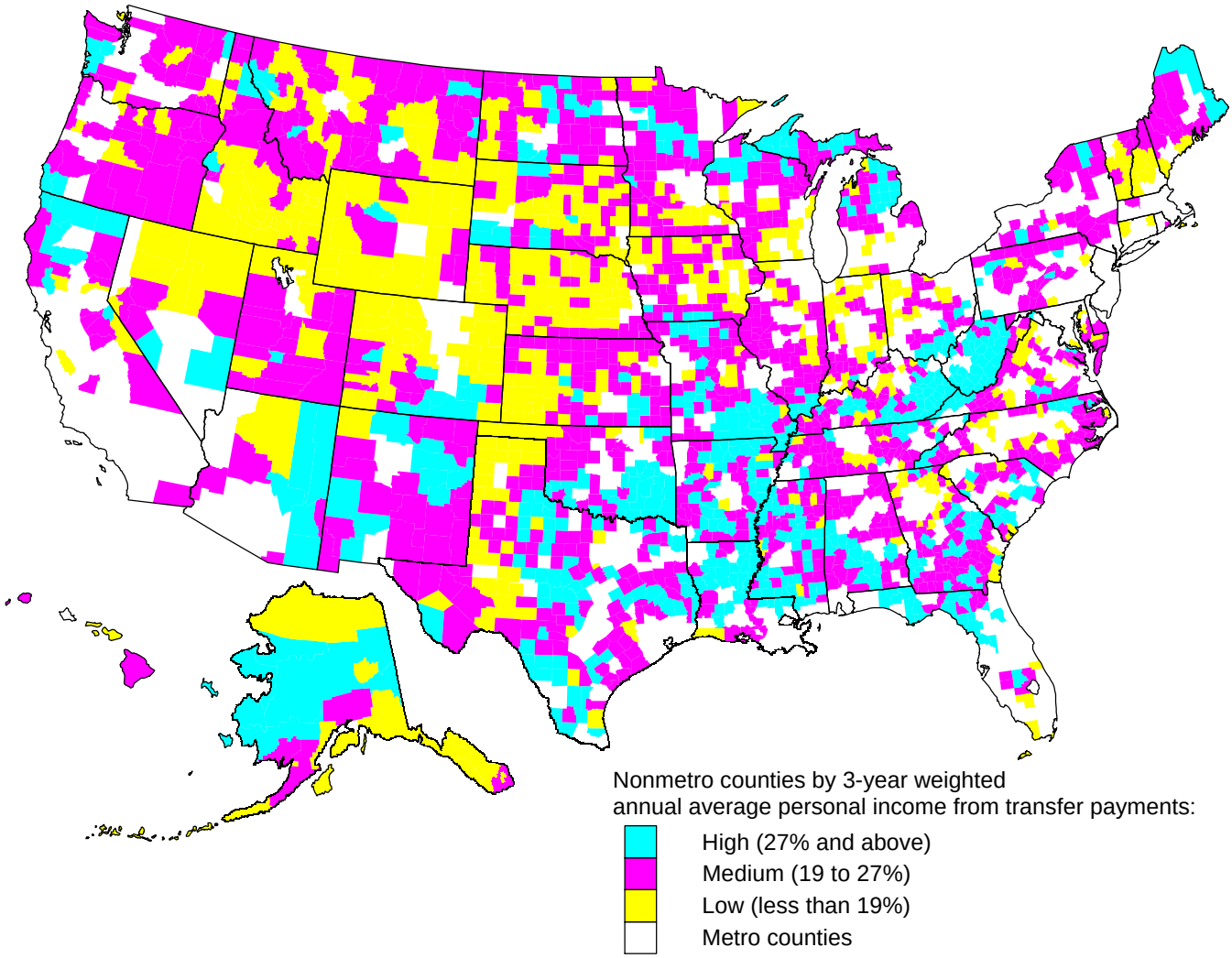
Texas with high Hispanic populations, Western counties with large Native American populations, and retirement areas in the Ozark region, upper New England, Florida, and California's northern coastal counties (fig. 5).

Several county types had a disproportionate share of counties that were also high-transfer counties. For example, over 60 percent of persistent-poverty counties, more than 30 percent of counties in the South and in retirement-destination counties, and over 40 percent of Black counties and Native American counties depended heavily on personal income from transfer payments. Many of the types also overlap with each other. *[Elizabeth M. Dagata, 202-219-0536, edagata@econ.ag.gov, and Peggy J. Cook, 202-219-0095, pross@econ.ag.gov]*

Figure 5

Nonmetro counties by economic reliance on government transfer payments, 1992-94

High-transfer counties include many persistent-poverty and minority counties



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